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LOCAL DEVELOPMENT PAPER NO. 4

Where Credit Is Due: A Case Study of the Eagle River Credit Union

by

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RÉSUMÉ

En mai 1984, la Banque de Montréal ferma sa succursale de L'Anse-au-Loup, une agglomération de la rive sud du Labrador. La région d'Eagle River, qui est desservie par L'Anse-au-Loup et dépend dans une grande mesure de la pêche et autres industries saisonnières, souffrait déjà d'un taux de chômage bien au-dessus de la moyenne provinciale, et de niveaux de revenu inférieurs aux normes de la province. Par suite de la fermeture de cet établissement bancaire local, il fallait parcourir un long trajet, par route ou par bateau, pour se rendre à la banque la plus proche, sans compter la menace qu'elle constituait pour l'autonomie économique et financière des résidents et des entreprises de la localité. On craignait même d'être réduit à revenir à l'ère pré-bancaire du troc, une perspective que les habitants de la localité trouvaient inacceptable.

Au début, les habitants de la région qui avaient su se montrer habiles à défendre et à promouvoir leurs intérêts locaux ont cru qu'ils pourraient, en exerçant des pressions sur la Banque de Montréal, la faire revenir sur sa décision. Ils obtinrent que la banque diffère de trois mois la fermeture, mais pour le reste, leur campagne demeura sans succès. Une tentative pour amener la Banque de Nouvelle-Écosse à ouvrir une succursale à L'Anse-au-Loup ne fut guère plus heureuse, et les efforts déployés pour persuader la coopérative de crédit de St. John's d'établir une succursale dans la région n'eurent pas plus de succès. Après ces nouvelles rebuffades, la collectivité comprit qu'elle n'avait plus qu'à fonder sa propre institution financière.

Un comité fondateur fut donc créé spécifiquement pour aider à l'établissement d'une nouvelle coopérative de crédit à L'Anse-au-Loup. Ce comité tint une réunion avec les représentants de la Labrador Fishermen's Union Shrimp Company, car celle-ci avait décidé d'établir une société de crédit distincte exclusivement à l'intention des pêcheurs et des travailleurs d'usine désireux d'en devenir membres, et avait appris par la suite qu'une telle société de crédit, trop restreinte pour répondre aux normes fixées par la province, ne pouvait obtenir une charte provinciale. Les deux groupes s'unirent donc pour établir une coopérative de crédit communautaire. À ses débuts, celle-ci put compter sur l'appui généreux de la Shrimp Company, et bénéficia aussi de l'aide de la Southern Labrador Development Association, du Conseil communautaire de L'Anse-au-Loup, et de la Banque de Montréal qui lui céda, pour un prix nominal, tout le mobilier et les fournitures de la succursale qu'elle avait fermée.

Un conseil d'administration provisoire formé des principaux chefs d'entreprises et dirigeants de la collectivité ayant été élu en mai 1984, la coopérative de crédit ouvrit ses portes le mois suivant. Dans une grande mesure, le succès qu'elle connut dès son ouverture est attribuable à l'habile direction de Stanley Pike fils, l'ex-directeur de la succursale de la Banque de Montréal qui avait refusé d'être muté à une succursale située à Corner Brook, afin de demeurer à L'Anse-au-Loup. L'aide offerte par la Caisse populaire de la collectivité voisine de Blanc Sablon, au Québec, fut tout aussi importante. La Caisse populaire fournit à la nouvelle coopérative de crédit l'accès au système de compensation, des chèques de voyage et des mandats-poste, ainsi que la possibilité d'investir ses fonds excédentaires. L'appui de la Caisse populaire permit à la coopérative de crédit d'offrir des comptes-chèques dès 1985.

La clientèle de la coopérative se multiplia rapidement, si bien qu'en août 1984, deux mois après son ouverture, elle comptait déjà 396 membres. Quatre ans plus tard, elle en avait 1191 à L'Anse-au-Loup seulement, un nombre qui équivalait à près de 55 % de la population totale de la région. Par ailleurs, une succursale ouverte récemment à Mary's Harbour compte maintenant 214 membres, et la coopérative songe à ouvrir une autre succursale près de Cartwright. Comme résultat des activités de la coopérative de crédit, sept emplois à plein temps avaient été créés dans la région en 1987.

À la fin de cette même année, l'actif total de la coopérative s'établissait à un peu plus de 4,5 millions de dollars, dont environ 3 millions étaient sous forme de prêts (principalement des prêts aux consommateurs). Pour ce qui est de ses comptes en souffrance, la proportion est inférieure à 1 %, ce qui témoigne aussi bien du soin mis à consentir les prêts que de la crainte des emprunteurs de voir leur image ternie s'il devenait notoire qu'ils n'ont pas remboursé leurs prêts. La coopérative n'a pas encore pénétré dans le domaine du financement des entreprises, mais elle se propose de le faire, en partie pour utiliser à meilleur escient les fonds excédentaires qui tendent à s'accumuler durant la saison de la pêche estivale, alors que la majorité des emprunteurs remboursent leurs prêts.

La brève histoire de la Coopérative de crédit d'Eagle River contient certaines leçons pour les praticiens et les responsables des politiques de développement régional et communautaire. La première, c'est qu'il est important que les entreprises, les syndicats de travailleurs et les sociétés sans but lucratif se regroupent en association, en tant que partenaires dans le développement économique de la collectivité. L'expérience d'Eagle River illustre également l'importance des services financiers locaux pour la survie de la collectivité, et démontre que l'investissement public dans l'établissement d'institutions locales peut produire de bons résultats. La pratique de ce genre d'investissement, qui avait eu cours dans la région de L'Anse-au-

Loup pendant près de 20 ans avant l'établissement de la coopérative de crédit, a permis au Comité fondateur, une fois qu'il devint évident que la Banque de Montréal quittait définitivement les lieux, de mobiliser la collectivité de façon rapide et efficace.

ABSTRACT

In May, 1984, the Bank of Montreal closed its branch in L'Anse-au-Loup, a community in southern coastal Labrador. The Eagle River area served by L'Anse-au-Loup and heavily dependent on fishing and other seasonal industries, was already suffering from an unemployment rate well above the provincial average and from income levels below provincial norms. Loss of the local bank meant a long journey by land and sea to the nearest bank and threatened further erosion of local economic autonomy in the running of the area's personal and business finances. It also raised the very real possibility of a return to a pre-banking era of barter -- a prospect which area residents found unacceptable.

Initially area residents, who had in the past proven adept at lobbying and organizing in the area's interest, thought they could pressure the Bank of Montreal to reverse its decision. But their campaign to do so did not succeed, although the bank did agree to postpone the closure for three additional months. An attempt to induce the Bank of Nova Scotia to open a branch in l'Anse au Loup was also unsuccessful, as were attempts to persuade a St. John's credit union to establish a branch in the area. After these further rebuffs, it was generally understood that the community would have to establish its own financial institution.

A steering committee was formed specifically to help establish a new credit union in l'Anse au Loup. After a meeting of committee members and representatives of the Labrador Fishermen's Union Shrimp Company, which had independently decided to establish a separate credit union open only to member fishermen and plant workers, and after learning that a restricted credit union such as that proposed by the Shrimp Company could not, by provincial law, be registered, the two groups joined forces and established a community credit union. The Shrimp Company contributed heavily to the fledgling credit union, but it also received help from the Southern Labrador Development Association, the Community Council of L'Anse-au-Loup, and the Bank of Montreal, which sold the credit union, for a nominal price, valuable furniture and equipment from the defunct branch.

In May, 1984, a provisional board of directors comprised of leading community and business leaders was elected, and the credit union opened its doors in the following month. A key factor in the credit union's early success was the shrewd leadership of Stanley Pike, Jr., the former Bank of Montreal branch manager who had declined a transfer to a branch in Corner Brook in order to stay in L'Anse-au-Loup. Equally important was the assistance extended by the caisse populaire in nearby Blanc Sablon, Quebec. The caisse populaire provided the credit union with cheque clearing facilities, travellers' cheques and money orders, and investment facilities for its surplus funds. The support of the

caisse populaire enabled the credit union to introduce chequing accounts in 1985.

Membership in the credit union has grown rapidly. In August, 1984 -- two months after the facility opened -- there were 396 members. Four years later, there were 1191 in L'Anse-au-Loup alone -- a figure representing almost 55 per cent of the region's total population. Another 214 people have joined a recently-opened branch in Mary's Harbour, and the credit union is now actively considering opening another branch in nearby Cartwright. As a result of the credit union's activities, seven full-time jobs had been created in the region as of 1987.

At year's end, 1987, the credit union's total assets stood at just over $4.5 million, of which about $3 million was in the form of loans (mainly consumer loans). The delinquency rate on the credit union's loans is less than 1 per cent -- an indication both of the care with which loans are made and of borrowers' fear of public embarrassment if it became known they had not repaid their loans. While the credit union has not yet expanded into the area of business financing, it is now considering doing so, in part as a means of better utilizing the surplus funds which tend to accumulate during the summer fishing season, when borrowers normally repay their loans.

The brief history of the Eagle River Credit Union offers a number of lessons to regional and community development practitioners and policy-makers. Chief among these is the importance of partnerships between business, labour, and voluntary organizations to effective community economic development. The Eagle River experience also demonstrates the importance of local financial services to community viability, and shows that public investment in local organizational capacity building produces results. This investment, which had been taking place in the L'Anse-au-Loup area for nearly 20 years prior to the establishment of the credit union, enabled the steering committee to mobilize the community both quickly and effectively once it became clear that the Bank of Montreal was leaving.

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FOREWORD

The purpose of the Economic Council's project on Directions for Regional Development was to look at situations in which local communities had assumed more responsibility for their own development, and to see what lessons could be learned from these experiences. Fourteen case studies were undertaken, while a number of Issue Papers examined subjects of general concern to communities and development practitioners. The research was deliberately designed to be different from work typically undertaken by the Council in the past. The primary task was to collect instructive evidence, and to verify it where possible by drawing upon existing evaluation studies. The authors were not expected, for example, to undertake the extensive data collection needed to do cost-benefit studies. Rather, they were asked to capture the diversity of the local development experience in Canada.

The results of the research are being reported in a special collection of Local Development Papers. The first seven releases in the collection are listed at the end of this document. Further papers addressing the problems of single industry towns, urban cores, development indicators and other cases and aspects of local development will be released over the next few months and an overview of the findings from these cases and Issue Papers will be presented in a paper entitled Developing Communities: The Local Development Experience in Canada.

A subsequent phase of the project will analyze the context within which local development initiatives take place and evaluate their actual and potential impact on reducing regional disparities.

This Paper presents one of the 14 case studies produced by the Directions for Regional Development project under the direction of Dal Brodhead.

Geographically, these studies span almost the entire country, from Nanaimo, British Columbia, to St. Anthony's, Newfoundland. The range of initiatives described is almost equally broad; it goes all the way from the establishment of a small credit union designed to provide basic financial services to the residents of a single community to a comprehensive long-term area development initiative involving all three levels of government and designed to achieve a wide variety of socio-economic objectives over a ten-year period. A unique feature of the project was its regional orientation through the use of three regional consultants who played a major role in the development of the case studies and the consultation process. Equally important were the numerous joint research ventures undertaken with a wide range of regionally based partners.

Our work in the first part of the project suggests that programs sensitive to the needs of individual communities, and based on some type of partnership between government and local groups, may make a contribution to economic development in Canada's diverse regions. In particular, our research suggests that communities have an important role to play in identifying development priorities and the particular skill requirements of individuals and local businesses. They also indicate that such "bottom-up" strategies can be assisted by a Local Development Organization (LDO), whose mandate is sufficiently broad and constituency base sufficiently large to enable it to take a long-term development perspective. An important feature of "bottom-up" community development strategies is their focus on community capacity-building aimed at increasing local self-reliance and innovation.

The cases on which we have chosen to focus illustrate a number of the ways in which Canada's communities have mobilized their available human, financial, and material resources to help assure a future for themselves. We believe that these cases will be of value both to community and regional development practitioners and to regional policy-makers at all levels of government.

This research was sponsored jointly by the Research and Analysis Division of the Department of Rural, Agricultural and Northern Development (RAND) of Newfoundland and the Economic Council of Canada. The research and report preparation were undertaken by the authors with the assistance of Ted Jackson on behalf of the Economic Council of Canada. The authors -- John Wickham, Richard Fuchs, and Janet Miller-Pitt -- were with the Research and Analysis Division of the Department of Rural, Agricultural and Northern Development, Government of Newfoundland and Labrador at the time the paper was being researched and written. Mr. Fuchs is now General Manager of Development Services with the Newfoundland and Labrador Development Corporation.

Judith Maxwell
Chairman

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INTRODUCTION

In May, 1984, the Bank of Montreal closed its southern Labrador branch in the community of L'Anse au Loup. For the rural communities of southern coastal Labrador, this local bank had become an indispensable part of daily life and commerce. Its loss not only meant extensive travel by land and sea to the nearest bank; it raised the very real possibility of a return to the almost pre-cash economy which had existed prior to 1978 and of a further erosion of local economic autonomy in the running of personal and business financial affairs. Both the onerous need to travel for financial services and the possible return to a pre-banking era of barter and trade galvanized the community into searching for replacement services. The choices local people made, the strategies they used, and the solution they found are the subjects of this case study.

The loss of the bank in L'Anse au Loup was a small but important example of the larger forfeiture of equity, capital, services, jobs, and money which has characterized rural economic life in Canada. Historically, such potential sources of equity capital as savings accounts and registered savings plans have been deposited at local branches and sub-branches of centrally-controlled chartered banks, with little apparent return to the local community and its economy. The flow of capital and equity has been away from residents and local entrepreneurs toward businesses

in larger centres which more readily fit the larger financial institutions' lending profile and regulatory framework.

With the establishment of the Eagle River Credit Union in 1984, local people acquired and now control much of the financial management and related commercial benefits formerly lost to the community. Today, over $4.6 million is deposited locally, with almost $3 million provided in loans to local residents. With most loans used for purchase of consumer goods, local businesses have benefitted and expanded. Because of the credit union's cooperative structure, share capital provided over $90,000 to members in 1987. As well, the interest on loans has been channelled back to the membership, providing increased disposable income for the purchase of local goods and services.

Credit union and caisse populaire systems have existed in Canada for almost a century. But the recent growth in such alternative financial services as credit unions has been a predominantly urban phenomenon, reflecting the shift in Canada's population distribution. Credit unions in Canada have also gone through a high degree of consolidation, especially after the recession of the early 1980s, characterized by the amalgamation of independent services into branches or the creation of new branches by existing successful institutions.

The Eagle River Credit Union story is different. It was established in a small and geographically remote region of Labrador. While a broad cross-section of business, labour, and community interests eventually united in the local drive for new financial services, the credit union itself was chosen as a last resort when it became evident that no chartered bank or other financial institution would maintain a branch there. It took the cooperation and support of the entire community to get the credit union established. That support helps ensure its continuing success today.

The Eagle River Credit Union, then, is an example of community economic development that works. This case study shows how the credit union emerged and succeeded as a locally-owned and controlled financial institution which today benefits the local economy by providing accessible capital and equity, direct interest payments, increased disposable income, local financial management, and jobs.

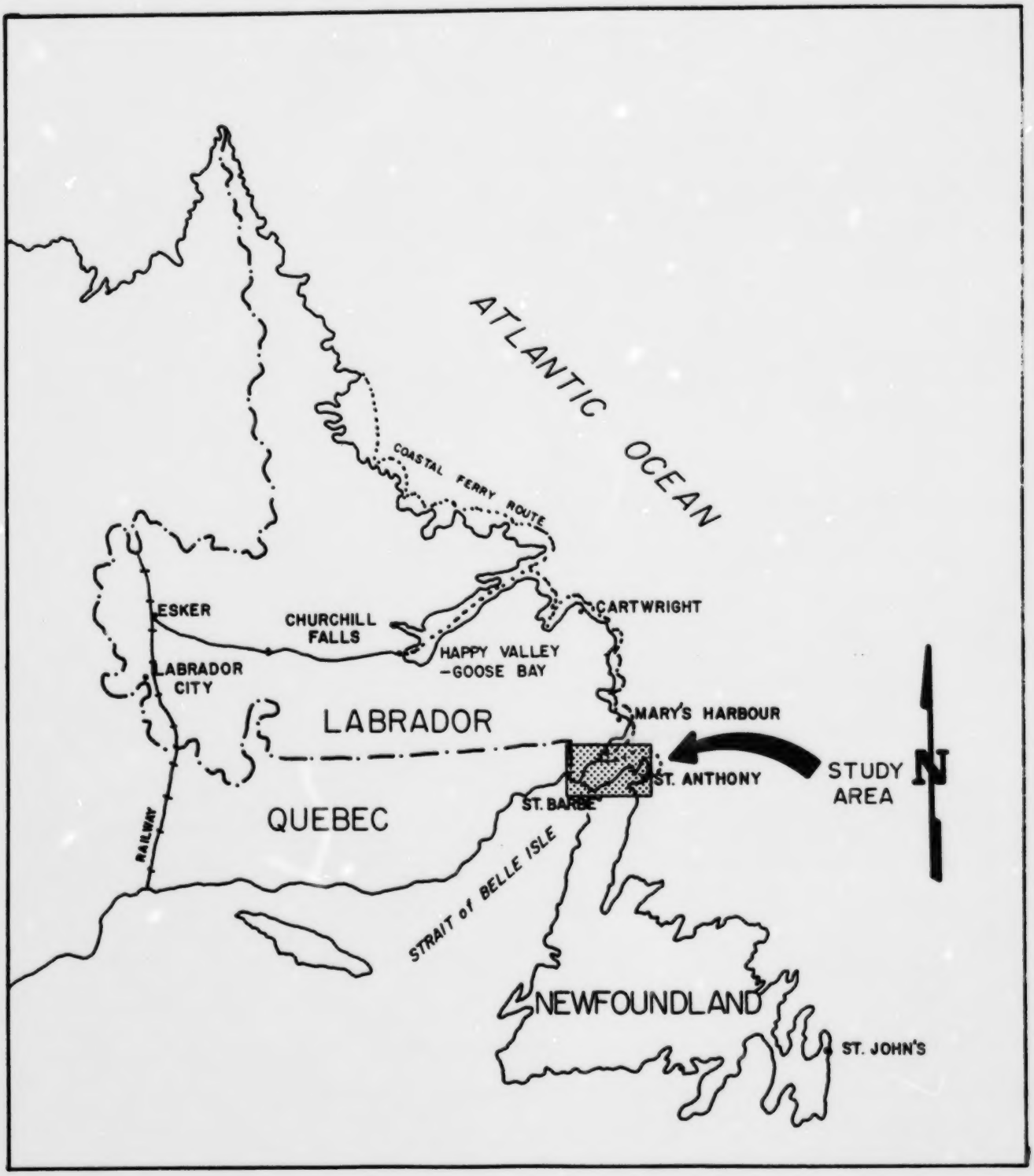
The purpose of this case study is to document the factors which led to this example of successful community economic development and to offer broader insights to help guide the formulation of rural economic development policy in Canada.

The Region

The Strait of Belle Isle lies between the northwest coast of Newfoundland and the southeast coast of Labrador and forms the northern entrance to the Gulf of St. Lawrence from the Atlantic Ocean (See Map 1). About 125 km long and 17 km at its widest point, this narrow sea channel, which teems with fish and seals, has been an international waterway since the time of Cartier and Cabot and remains the focal point of life along its coast.

The Labrador Straits encompasses the permanent communities of L'Anse au Clair, Forteau, L'Anse Amour, L'Anse au Loup, Capstan Island, West St. Modeste, Pinware, and Red Bay. The region was occupied by a succession of aboriginal peoples from the time of deglaciation almost 8,000 years ago. European visitation began with the Vikings c.986 A.D. Since the early 1500s, the Strait of Belle Isle has been exploited as a rich marine frontier by a succession of Basque, French, English, and Newfoundland fishermen (see Figure 1).

As in other Newfoundland outports[1], commercial interests have shaped the settlement and development of southern coastal Labrador. Until the mid-1900s, resident fishermen were almost entirely supported by outside merchants and traders who monopolized local supply. The one notable exception was the



MAP I: LOCATION OF STUDY AREA

formation of a cooperative store at Red Bay in 1896, the first such organization to be set up in Newfoundland and Labrador.

Started by the famed British medical missionary and philanthropist, Dr. Wilfred Grenfell, the "Red Bay Cooperative Store" (also known as the "Copper Store" because of its initial share capital of $85) was established in the fall of 1896 after the local trader had gone south, leaving local fishermen bereft of markets for their fish and sources of vital supplies for the fast-approaching winter. Although a second cooperative was founded at nearby West St. Modeste and others established across the Strait at Great Brehat and Flower's Cove, this innovative form of local commercial control soon foundered because of the concerted opposition of local traders and poor business practices.

With the failure of these early cooperatives, resident traders with close ties to St. John's merchant houses came to dominate the local economy. Virtually untouched by resettlement[2] and the extensive seasonal migrations common to other areas of Labrador, people in the Labrador Straits have remained in their communities year-round engaging in the small-boat, inshore fishery and producing salt cod for export. In 1986, the Labrador Straits had 2,340 people distributed among the region's eight communities. L'Anse au Loup, the site of the former bank, is the largest community with 658 people; tiny Pinware, the region's smallest

permanent community, has 196 residents. From 1981 to 1986, the population has grown at a yearly rate of roughly 1 per cent. Although considerably lower than historical levels for the area, this rate exceeds the province's annual rate of population growth for the same period (.1 per cent per annum).

Figure 1

Chronology of the Labrador Straits Region

c.6905 B.C.	Maritime Archaic Indian
c.4000 B.C.	Dorset Eskimo; Naskaupi/Montagnais Indian
c. 400 B.C.	Thule Eskimo
986 A.D.	Viking Visitation of Bjarni Herjolfsson
1497	Labrador Straits sighted by John Cabot
1500	Labrador Straits sighted by Corte Real
1534	Labrador Straits sighted by Jacques Cartier
1668	Hudson Bay Company Charter, including all of Labrador, granted by King Charles II
c.1700	French fortifications built at West St. Modeste
1702	French concession to Sieur de Courtemanche for trading and fishing on the coast of the Strait of Belle Isle
1713	Concession of Belle Isle granted to Pierre Constantin
1770	George Cartwright established British trading post at Cape St. Charles - Lodge Bay
1774	Jersey merchant De Quetteville started fishing business at Forteau
1778	British merchants Noble and Pinson established a fishing and sealing station at L' Anse au Loup
1825	Quebec-Newfoundland boundary dispute, L'Anse au Clair taken over by British settlers
1849	First Church (Church of England) erected at Forteau
1851	First capstan and seal net erected at Capstan Island
1855	Lighthouse at Point Amour erected by the British Admiralty
1896	First cooperative store started by Wilfred Grenfell at Red Bay
1903	Second cooperative store opened at West St. Modeste
1909	Nursing station established by Grenfell at Forteau
1958	Oblate mission established at West St. Modeste

The region's population is characterised by high proportions of young people and greater numbers of males in almost all age cohorts. Young people below working age are relatively overrepresented because adults of working age are likely to emigrate in search of better opportunities for employment and income in Newfoundland and elsewhere. The male-female ratio of 100:90 may be explained by the inclination of young females to leave the Labrador Straits to attend post-secondary educational institutions, while males are more likely to remain in the area to enter the fishing industry.

As in most rural areas in Canada, the level of education in the Labrador Straits is significantly lower than in metropolitan areas. There are no post-secondary institutions in the region; thus those who seek educational advancement must leave the area to go to university or vocational school. Once people leave to pursue higher education, they are unlikely to return, as their new skills will have more value in the province's service centres than in primarily rural fishing communities. Consequently, more than 50 per cent of all adults in the Labrador Straits have less than grade nine education. Indeed, almost 80 per cent of the adult population have not completed high school.

The fishery remains the backbone of the regional economy with 45 per cent of the labour force engaged in fish harvesting (29 per

cent) and fish processing (16 per cent). Cod accounted for 2,768 metric tonnes or about 72 per cent of all landings in the region in 1986 and remains its most staple product, although other species, including salmon, shrimp, capelin, and scallops, are also harvested, landed, and processed.

The Labrador Straits fishery is a highly seasonal enterprise, with the harvesting and processing activity taking place during the months of June to August. Few of the 323 registered fishing vessels are large enough to participate in longer-distance fisheries, such as the winter fishery on the Southwest Coast. This high degree of seasonality results in elevated rates of winter unemployment, comparatively low incomes, and considerable dependence on transfer payments as a share of household and individual income.

There are 506 registered fishermen in the region and 422 people working seasonally in eight different fish processing facilities. The Labrador Fishermen's Union Shrimp Company Limited, the largest of the region's fish processing facilities, employs almost 200 people at peak in its L'Anse au Loup plant filleting, skinning, freezing, and packaging fresh cod for market.

Because of its distance from markets and the uncertain transportation links between the region and insular Newfoundland

and mainland Canada, southern coastal Labrador is one of the last places in the province where primary salt bulk processing predominates. The cod is split, washed, and loaded as salt bulk on wooden pallets in individual community facilities for purchase by the Canadian Saltfish Corporation. Further processing takes place in plants located on the island of Newfoundland. Recently, fishermen in the Red Bay area have attempted to add value to this process by establishing a cooperative drying facility.

Labour force activity and incomes in the Labrador Straits fluctuate considerably during the year. With the fishery's shifting markets, changing prices, and variable resource supply, employment can vary dramatically from one year to the next. Participation rates are low, and the "official" unemployment rate[3] is high. In 1985, 830 people, or 47 per cent of the adult population, received unemployment insurance benefits. Incomes in the region are likewise low, indeed, among the lowest in Newfoundland and Labrador (only 64 per cent of the mean provincial income in 1985).

The role which transfer income plays in the Labrador Straits (67.5 per cent of employment income) is three times higher than that of the province as a whole (23.3 per cent) and twice as high as the rural Newfoundland average of 38.9 per cent. The most important form of transfer payment for the Labrador Straits is, of

course, Unemployment Insurance benefits; in 1985, these comprised 34 per cent of all personal income in the region. (Derived from Revenue Canada T-1 files for 1985.)

Despite these low incomes, the Labrador Straits supports a burgeoning service and small business sector. Isolated from the regional administrative centre of Happy Valley-Goose Bay, and with a sufficient resident population which is seasonally boosted by visiting mobile fishing fleets, local small business has prospered to the point where more than a quarter of the labour force works in the community, business, and personal services sector.

Most of the region's 50 local businesses are located in those communities closest to the Quebec border - L'Anse Au Clair, L'Anse au Loup, and Forteau. While many of these enterprises deal in food and other domestic retail staples, there is also a flourishing hospitality industry which has been stimulated by the tremendous growth in non-resident tourist visitation. The discovery of the 16th century Basque galleon, San Juan, at Red Bay has fueled growth in a tourism industry formerly almost entirely based on fishing and hunting camps. Now recognized as an historic attraction of international significance, the Red Bay site has generated enormous interest and a significant increase in tourist travel to the region.

The Bank of Montreal: 1978 to 1984

Before the region's first financial institution opened its doors in 1978, the people of southern Labrador had no commercial financial services. Household savings, such as they were, were generally deposited in a safe place in the home, and most monetary transactions were strictly cash.

The merchant, often unwittingly, played the role of banker in the region, as is still the case in all coastal Labrador communities which have no financial services. Under this system, a local merchant cashes all cheques in the community. The merchant, often one of the few people in the community with a bank account from an outside institution, is thus able to control the amount of cash in circulation, although in many cases he is unaware of the implications of this power.

In southern coastal Labrador, this system was apparently adequate as long as residents were paid in cash. But the introduction of cheques into the local economy caused unforeseen problems for both merchants and the public. When told by customers that their cheques were as good as cash, the merchant took them at their word. Accordingly, cheques were soon being circulated as cash with as many as 20 signatures on the back of a

mutilated piece of paper, a graphic testament to the circulation of this local version of currency.

A visiting civil servant, for example, would expectantly enter a small community store to cash a $100 cheque. The merchant, trusting this stranger completely, would gladly comply, handing over to the civil servant $50 in cash and a number of second-party cheques totalling $50. The cash and cheques would often be frayed or otherwise disfigured, having circulated in the community for considerable periods. Cash which did not circulate was often safely tucked away, fresh and crisp, in the home.

The importance of clearing a cheque immediately was not commonly understood by either residents or merchants. When, at last, these mutilated cheques would be presented to a bank, they would be returned, not because of insufficient funds, but because they were stale-dated, (i.e., more than six months old). The merchant usually had little recourse other than to accept the loss. As one merchant's employee wistfully observed, "We burned thousands of dollars in old cheques." Merchants, however, were understandably unprepared to continue accepting these kinds of continuing losses, and it became increasingly difficult to cash personal cheques. Government cheques, however, could always be cashed because the merchants remained confident that, stale-dated

or not, they would be honoured by the province's Department of Finance.

It was a welcome relief, then, in June 1978 when the Bank of Montreal moved to L'Anse au Loup and opened its doors, albeit on a part-time basis. Having decided that most of its customers would be area business people and that its services would be primarily commercial, the bank deemed part-time service to be sufficient. But residents began to deal with the bank almost immediately and, by January of 1983, the bank opened its services full-time. A young local man who had worked for the Bank of Montreal in other rural branches in the province was hired as the bank manager, and, for the next year, things proceeded smoothly with residents quite pleased with the bank's services.

Residents were staggered when, early in 1984, the Bank of Montreal abruptly announced that it was withdrawing its services and moving all accounts to Deer Lake, a two-hour ferry ride across the Strait of Belle Isle and a five-hour drive down the Great Northern Peninsula Highway away. To local people, the closure made no sense. By Newfoundland standards, local economic conditions were quite good that year: the cod industry was healthy, or at least better than it had been; the scallop fishery was experiencing an unexpectedly good season; plant workers were well on their way to collecting enough insurable work weeks for

Unemployment Insurance benefits - a sure sign of a successful summer fishery in many rural communities in the province; construction had prospered due to the recent completion of the road to Pinware; and tourism, although in an embryonic stage, offered glowing promise for future growth with the discovery of the Basque whaling vessel, San Juan, at Red Bay.

The economic outlook in Canada and the world was not so optimistic. The Canadian economy was emerging from the last throes of a major recession and banks were becoming increasingly aware of the problems associated with the large amounts of credit which they had extended to developing countries. The electronics revolution was beginning to significantly affect personal financial services: the Automated Teller Machine (ATM) was being introduced and interbank services were rapidly establishing themselves in the consumer market. The chartered banks were thus accelerating an already established trend of consolidating branches in rural areas and moving to urban settings.

According to present employees at the headquarters of the Bank of Montreal who reviewed the bank's records, the branch in L'Anse au Loup was also operating only at a marginal level in terms of its cost-recovery, which was unsatisfactory to the bank's shareholders.[4] But these and other external factors did little to help local residents understand, or for that matter believe, that

the bank was actually leaving the area. Once the fact of the bank's closure had sunk in, however, local community leaders began a concerted campaign in early February, 1984, to retain banking services for the region.

Head 'em Off at the Pass

People in Southern Labrador had fairly considerable experience with political lobbying and organizing publicly in the region's interest. Through such regional organizations as the Community Employment Strategies Association, the Southern Labrador Regional Development Association, the Chamber of Commerce, and other groups, local commercial and community leaders had become adept at articulating the region's interests and concerns. Such developments as the recent paving of the road from Blanc Sablon to Pinware and the upgrading of the road to Red Bay were considered, at least in part, to have been the outcome of effective lobbying campaigns aimed at both the federal and provincial governments. Surely, local leaders thought, if they could get a $30 million road paved, they could pressure the Bank of Montreal to reverse its decision.

The Southern Labrador Development Association, which was incorporated in 1975, had proven to be an enduring and effective voice for Straits residents and was a breeding ground for highly

capable community leaders.[5] As well as being a source of local employment, it had evolved as the region's leading lobby group. While community councils and fishermen's committees often spoke about specific issues of community concern, the development association was the only group in the area that had a mandate to speak for the region as a whole.

It was the development association that called the first public meeting on the issue of the bank's closure. As a result of this meeting, a steering committee formed to try to persuade the Bank of Montreal to reverse its decision and met with officials of the bank in St. John's in early February of 1984. Bank officials were cordial but firm: the bank was restructuring and shifting its focus from retail banking - such personal financial services as savings, car loans, and mortgages - to commercial banking - business loans, business accounts, lines of credit, and capital loans. An unattributed, but often repeated, quote from that meeting was, "We can make ten times as much money on Yonge Street, with the same effort, as we can in coastal Labrador."

The meeting in St. John's had not been a total failure, however, as the bank, faced with increasing amounts of bad publicity both in the local area and on province-wide radio, agreed to postpone its closing date from February 25 to May 25, 1984. The bank had already offered the local manager a transfer to Corner Brook, but

he agreed to stay in L'Anse au Loup for the extra three months that the Bank would remain open. This concession would later prove to be an extremely important one.

It soon became obvious that the Bank of Montreal would pull out despite local threats to picket the Bank of Montreal headquarters in Quebec and the increasing and vociferous local media attention in support of residents of the Straits. Feelings of bitterness abounded as local people vented their frustrations about the bank. As one resident, who wishes to remain anonymous, stated:

> They [the Bank of Montreal] said to hell with rural communities, but you will never get them to admit it. They did not have the [interests of the] people at heart, and even though we know there were no losses, they left anyway.

Residents remained convinced, however, that they needed the services to which they had grown accustomed. They would not and could not be forced to revert to the primitive system that they had left behind. Faced with the Bank of Montreal's intractable stance, they decided to search elsewhere for financial services.

The Search For Options

The steering committee decided to look first to the Bank of Nova Scotia, which already had a large number of rural branches in the Province, to see about establishing a new branch in L'Anse au Loup. Some community residents already were dealing with the Bank of Nova Scotia in St. Anthony, and they believed, because of its numerous rural branches, that Scotiabank was more concerned about rural people than other institutions. Many had been surprised, in fact, that it had been the Bank of Montreal, rather than the Bank of Nova Scotia, which had chosen to open the local sub-branch in 1978.

The Newfoundland and Labrador Credit Union in St. John's and the Labrador Credit Union in Happy Valley-Goose Bay were also approached about setting up a branch in southern coastal Labrador but they declined the invitation, as neither of the credit unions felt ready to expand into the area without further study. Another option which was considered was patronage of the caisse populaire, located in nearby Blanc Sablon. Although opened to serve specifically the mainly francophone residents on the Quebec side of the border, it was nevertheless familiar to the residents of southern Labrador. Many residents dealt with this institution and knew that it could provide equivalent service. But because of provincial regulations in Quebec, officials of the caisse

populaire informed the steering committee that they would not be able to move into Newfoundland.

In early April of 1984, residents were informed by the Bank of Nova Scotia that the bank was not prepared to service the area. This was a serious blow, as the residents had been optimistic that Scotiabank would indeed provide the necessary service. One of the original steering committee members recalled a representative of Scotiabank commenting that, "If the Bank of Montreal can't make it here, what makes you think we can?" Still other local people felt that the decision was part of a gentlemen's agreement between the Bank of Montreal and Scotiabank to cut competition between the organizations.

The residents of the Straits were now left with two choices: the Bank of Montreal would leave and all of the accounts would be serviced from Deer Lake, leaving the area with only a mail service; or they could try to organize and open their own credit union. Blessed with a high proportion of enterprising individuals who had grown used to wresting a living from a harsh environment, the people of the Labrador Straits decided that a mail-in banking service was not good enough. Rather, they themselves would provide the financial services they needed.

The idea of a credit union had not received much support when it was considered earlier in the 1970s, nor had it received much attention from the Bank of Montreal. People had been convinced that outsiders could provide a better service than local residents. And cooperatives historically were seen in a poor light; although first introduced almost nearly 90 years before, they had been unsuccessful, and that past failure may have lingered in popular memory. The most recent example was that of a consumers' cooperative which had opened and subsequently folded in West St. Modeste in the mid-1960s. Many residents attested to losing "a whole summer's earnings" because of this failure; they were therefore skeptical about anything resembling a cooperative. This is why the steering committee began to organize a credit union only after all other options had been exhausted.

A new steering committee, composed of many of the members of the original steering committee set up to enquire into other banking options, was formed specifically to spearhead the formation of the new credit union (see Figure 2). In response to a phone call he had received from Stelman Flynn, representing the region's Chamber of Commerce, Mel Strong, manager of the Credit Union Council of Newfoundland and Labrador (CUCN) based in St. John's, agreed to attend a meeting in the Labrador Straits. Strong in turn contacted Bill Nosworthy, a Credit Union Specialist with the province's Department of Rural, Agricultural and Northern

Development (RAND), who agreed to accompany him. The main reason for this visit was to meet with the credit union steering committee and to receive an update on developments in the area. Although Strong had to cancel his visit for unavoidable personal reasons, Nosworthy nevertheless made the trip himself.

Things seemed to be falling neatly into place until it was learned that the Labrador Fishermen's Union Shrimp Company, owned by the Newfoundland Fishermen, Food and Allied Workers Union, had also decided to establish a separate credit union, available only to member fishermen and plant workers, in the same area. While it is almost impossible to imagine that the steering committee and the Fishermen's Union were unaware of what the other was doing, there had been no formal communication between the two groups about the creation of a replacement financial service for the community.

When Nosworthy arrived in L'Anse au Claire, he was met, not by the steering committee he had intended to assist, but by Claude Rumboldt of the Labrador Fishermen's Union Shrimp Company. Rumboldt informed Nosworthy that the founding meeting for the Union's proposed credit union was scheduled to take place that night at 7:30 pm in L'Anse au Loup, where a provisional board of directors was to be elected.

As Rumboldt told Nosworthy, the Shrimp Company proposed that a provisional board of eleven members be elected to their credit union, seven of whom would come from the company's board of directors and four of whom would be local fishermen. The manager's salary would be paid and seed capital of $100,000 provided by the Union to assist the credit union at the outset. It was proposed that the service provided would be only savings and cheque cashing and that eventually the credit union would be open to other residents of the area. Control of the credit union, however, would rest with the Shrimp Company through its seven directors on the proposed credit union's board.

Figure 2
The Eagle River Credit Union Steering Committee

Reg O'Brien was, for many years, the town manager of L'Anse au Loup. The son of the local merchant, he had combined a sound business knowledge with a strong sense of community involvement. Up until 1985, when it, too, ceased operations, he had been the Manager of AVCO Financial Services branch in L'Anse au Loup. In 1986, he succeeded Wilfred Letto as President of the Eagle River Credit Union.

Reg Hancock was the local worker for Outreach, a program of the Canadian Employment and Immigration Commission (CEIC); a prominent local volunteer worker, he had served as the Mayor of Forteau and the President of the Southern Labrador Development Association. He soon became the informal leader of this group. He later became the local Regional Development Specialist for the Government of Newfoundland and Labrador's Department of Rural, Agricultural and Northern Development.

Mary Smith was the coordinator of the Southern Labrador Development Association and a native of Capstan Island. The epitome of the dedicated volunteer, she later served on the Board of Directors of the Eagle River Credit Union from its beginning.

Emile Cabot was the town manager of West St. Modeste and a community leader. He has since moved to the Town of Happy Valley-Goose Bay.

Nosworthy had been unaware of this development, but agreed to attend the Shrimp Company meeting scheduled for 7:30 p.m. At 5:00 p.m. the same day, he met informally with the steering committee of the other credit union who presented him with a written report and a verbal overview of developments in recent months. At this meeting the steering committee members received, for the first time, formal confirmation from Nosworthy of the possible formation of a rival Shrimp Company credit union. The steering committee felt that, in order to make a credit union successful, the cooperation and support of the Shrimp Company were essential.

Later that night, the Shrimp Company held its public meeting despite the absence of Father Desmond McGrath, a founding member of the Newfoundland Fishermen, Food and Allied Workers Union. Fr. McGrath had been invited to attend but had been unable to because weather conditions had delayed him. The election of the provisional board was postponed for one night, but the meeting went ahead as scheduled with members of the public, including the members of the steering committee of the other credit union, attending. The two groups had less than 24 hours in which to put a deal together before Fr. McGrath arrived the next day.

Nosworthy, addressing the meeting, told them that the proposed Shrimp Company arrangement could not be registered as a credit

union under the Cooperative Societies Act. The Act required that the election of a provisional board be open to all members whom it proposed to serve and that no one set of interests, such as the Shrimp Company, could have special control. The steering committee of the other credit union seized this opportunity to explain the difference between the two proposed credit unions and to attempt to gather support for a regional, as opposed to a trade union-dominated, financial service.

Reg Hancock, a member of the steering committee for the regional credit union, rose and expressed his belief that in order for a credit union to work, everyone should cooperate. He reasoned that there should only be one credit union and that a Shrimp Company credit union would not be in the best interests of all the residents of the area. He further argued that a joint effort would ensure the credit union's viability.

After much discussion it was agreed that the formation of just one credit union would be in the best interests of all residents of the Straits and that this credit union should have the support and cooperation of all people involved. At this point, Hancock requested a vote on the Shrimp Company credit union <u>versus</u> a community credit union. The outcome unanimously supported the formation of a community credit union.

The following day, Father McGrath arrived in L'Anse Au Clair to meet with Claude Rumboldt and learned of the previous night's developments. Another meeting was called between the two groups and both agreed that cooperation was necessary to ensure a successful credit union. It was also decided that the Shrimp Company would fully support the new credit union. This meeting also produced the following conditions of agreement:

1. The new credit union would be named the Eagle River Credit Union;

2. Two members of the Shrimp Company would be appointed to the steering committee;

3. The area to be covered by the credit union would be L'Anse Au Clair to Cartwright;

4. The Shrimp Company would provide $100,000 in the form of a deposit;

5. The Shrimp Company would pay $13,000 toward the salary of the credit union Manager for the first year and;

6. The Shrimp Company would give $7,000 to the new credit union

towards travel in eastern Labrador for the purpose of providing financial services as far as north as Cartwright.

On the same evening that the new credit union format was finalized, the Bank of Montreal informed the steering committee that it would sell all furniture and equipment from the defunct branch for the sum of $5,000. This equipment had been valued at $30,000 and therefore represented a major saving for the new credit union.

The Southern Labrador Development Association also made an important financial contribution at this point by offering the credit union a $5,000 loan to pay for the Bank of Montreal's equipment. The Community Council of L'Anse au Loup, owners of the Bank of Montreal's premises, offered them to the credit union rent-free for one year in order to make the transition from the Bank of Montreal to the credit union as smooth as possible. The steering committee had been worried about a gap in financial services and therefore wanted an immediate transition from the bank to the new credit union. As the steering committee noted, the strategy was, "Just change the sign and open as quickly as possible." The first step in this strategy was now completed.

A public meeting was then called for May 23, 1984 for the purposes of electing a provisional board of directors. The first

board of directors included business, community, and trade union leaders who were well-known and well-respected in the entire region (see Figure 3).

Figure 3

The Eagle River Credit Union First Board of Directors

Wilfred Letto, prominent businessman, had a successful background in construction. He was probably best known for his ownership of a building supply business in L'Anse au Clair and his strong sense of community involvement.

Steve Letto was, with his wife Shirley, the owner of the Northern Light Hotel. Both had been driving forces in the development of the region's tourism industry.

Ruby O'Brien owned and operated an automobile dealership in L'Anse au Loup.

Stan Pike Sr., a Regional Development Specialist with the Department of Rural, Agricultural and Northern Development, was a resident of Red Bay who proved to be a valuable intermediary with government throughout the history of the credit union.

Gilbert Linstead was the Operations Manager of the Labrador Fishermen's Union Shrimp Company and possessed strong administrative skills as well as a committment to the community.

Claude Rumboldt, the second representative of the Shrimp Company, was the only non-resident of the Straits on this board. A resident of Mary's Harbour, he had been an active member of the United Fishermen, Food and Allied Workers.

Reg Hancock, a community Outreach worker with the Canadian Employment and Immigration Commission (CEIC), and Mary Smith, the coordinator of the Southern Labrador Development Association, were members of the original Steering Committee, as was Reg O'Brien who later became the president of the new credit union.

Making the Eagle River Credit Union Work

Now that the provisional board of directors of the community credit union was in place and the premises, equipment, and incorporation papers had all been arranged, there were numerous other factors which helped contribute to the new credit union's initial success.

Apart from the obvious financial support that the Shrimp Company provided, it also helped the credit union in other important ways. During the early stages, the credit union needed the confidence of the general public, and the Shrimp Company took a leading role in generating this confidence. Management encouraged all of its employees to open accounts and constantly promoted the credit union's benefits for them. The large deposit that it had made also helped to alleviate many of the residents' anxieties about the liquidity of the new operation and therefore encouraged investment from others. As a member of the Credit Union Council of Newfoundland and Labrador explained, "In order for a credit union to succeed, it sometimes needs a secret weapon. In the case of the Eagle River Credit Union, the secret weapon was the Labrador Fishermen's Union Shrimp Company."

The next stage in the strategy was finding staff with whom customers would feel comfortable. The Bank of Montreal had

already offered Stanley Pike, Jr., the manager of the L'Anse au Loup branch, a transfer to Corner Brook. Even though he was a manager with the Bank of Montreal, Pike did not fall victim to the bad feelings the residents now had towards the Bank of Montreal. It undoubtedly helped that his father, Stanley Pike, Sr., was on the board of directors of the new credit union. People were also aware that the younger Pike's sympathies for the region were at least as great as his loyalties to his employer. They knew, as well, that he would prefer to live and work in Southern Labrador.

The Board was quick to offer the younger Pike the position of manager of the new Eagle River Credit Union. Because both he and his wife were from the area and felt quite comfortable there, Pike accepted the challenge of the new position. Despite the fact that he would be making less money (at least initially) and had far less security, he realized the potential market for financial services in the area and had confidence in his ability to do the job.

At the beginning, Pike was the only employee, but business picked up immediately and within one month, another ex-employee of the Bank of Montreal, Alvina O'Brien, was hired. The strategy of maintaining the <u>status quo</u> and opening as quickly as possible had now been successfully completed. As the credit union's founders

had always intended, "The only thing that changed was the sign outside the door."

The final hurdle in establishing the Eagle River Credit Union was finding a mechanism for clearing cheques. All the logical in-province institutions were located on the island portion of the province or in Happy Valley-Goose Bay, and clearing cheques at either location would have led to transportation problems and high operating costs. Use of these outside services would also have proved problematic in bad weather.

The caisse populaire, however, operating in Blanc Sablon, Quebec, was just 40 km down the paved highway to the border which divided Quebec and Newfoundland. The caisse populaire proved to be very sympathetic to the Labradorian's plight. Negotiations for services commenced and both the credit union and the caisse populaire agreed that the caisse populaire would provide the Eagle River Credit Union with: (1) an operating account; (2) weekly cash requirements; (3) a line of credit up to $50,000; (4) clearing facilities for cheques; (5) travellers' cheques and money orders; and (6) investment facilities for surplus funds.

This arrangement greatly reduced operating costs and allowed the Eagle River Credit Union to become a full-service operation, offering a much-needed chequing service to the area. The

agreement also proved to be beneficial to the caisse populaire, whose assets increased from $5 million dollars in 1984 to $12 million dollars in 1987. While not all of this increase can be attributed to its dealings with the Eagle River Credit Union, Straits residents like to think that they have contributed in some way to the success of the caisse populaire.

In the Straits area, these regions of the two provinces of Quebec and Newfoundland have long co-existed as one community. This bond of cooperation was further strengthened by the new business relationship, and residents of the Straits still speak only in complimentary terms when referring to the caisse populaire and the manager at the time, Gaetan Juneau. As local residents attest, "Without Gaetan we wouldn't have been as successful; they [the caisse populaire] bent over backwards to accommodate us." This unique business arrangement is believed to be the first time a credit union outside of Quebec conducted cheque-clearing through a caisse populaire.

The Credit Union Council of Newfoundland and Labrador (CUCN) also became more active in the planning and initial operations of the new credit union. This organization is the central agency for credit unions in the Newfoundland and Labrador and is responsible for the promotion and development of existing and new credit unions. The membership is composed of local credit unions

governed by a board of directors elected annually by member credit unions. The council deals with matters on a provincial level. In this case, its role was to provide development guidance to the newly-formed credit union.

In the opinion of Mel Strong, the general manager for the Credit Union Council, "As the Eagle River Credit Union developed, so did the Credit Union Council." The Council also was at an embryonic stage, and because Eagle River was breaking new ground in the development of credit unions in the province, so did the Council. Strong further believes that Eagle River paved the way for future development of other credit unions.

One example of such a breakthrough came when the Community Council of West St. Modeste decided to transfer its account from the Bank of Montreal to the Eagle River Credit Union. Before this, the Municipalities Act did not include a credit union in its definition of a bank and it was therefore illegal for the Council to open an account with the Credit Union. But the Credit Union Council of Newfoundland (CUCN), together with the credit union, worked to have this legislation amended so that community councils may now deal with local credit unions in the province.

The Eagle River Credit Union also played an innovative role in the hiring of trained and experienced banking professionals. This

personnel policy was subsequently adopted in a proposal to set up a development fund for new credit unions. The proposal was subsequently submitted to the management committee of the Rural Development Subsidiary Agreement II, the major federal-provincial agreement for rural development in Newfoundland and Labrador. One of the main features of this revolving loan fund is to provide a salary for a manager during the initial development period of a credit union to ensure that sound management is available from the start-up of a credit union's commercial life.

The Factors of Success

Members are the reason for a credit union's existence and the residents in the Straits provide an interesting view of why the Eagle River Credit Union attained success so quickly, despite its seemingly unpromising location. As noted earlier, Southern Labrador is a region which has limited ferry access to insular Newfoundland and no road link to the large service sectors in Labrador, such as Happy Valley-Goose Bay or Labrador City. The fishery, the prime resource in the area, is a seasonal industry which in the past has been subject to fluctuations in landings and price.

There is a folk-theory that an informal method of behavioural control has evolved in the Labrador Straits which serves to keep

residents on the same social and economic plateau. Referred to in Southern Labrador as the "Straits Factor", and by anthropologists as "egalitarian stress", this informal mechanism for social control provides a levelling effect which eschews the public display of differences in social position.

Unlike people in urban areas, where social control is more frequently exercised through institutional rules and regulations, rural residents often have to rely upon informal mechanisms such as rumour, gossip, and ridicule to enforce local norms and customs. The fact that people know one another's business so often in small communities, or at least think they do, serves to ensure that violations of social convention are well-publicized and thereby discouraged.

Given that few people want their neighbours to know about their financial affairs, this rural social pattern has obvious and important implications for a locally initiated financial service like the Eagle River Credit Union. The "Straits Factor" could have been a double-edged sword for the credit union, preventing people from making deposits while at the same time placing social pressure on borrowers to repay their loans to avoid public ridicule.

The "Straits Factor", however, served to amplify the credit union's success. The overwhelming popular desire to have access to a financial service in Southern Labrador seems to have more than modified any reluctance to make deposits. Indeed, investing in the credit union came to represent something akin to a testament of regional patriotism and belonging.

While the Eagle River Credit Union is scrupulous in its efforts to ensure client confidentiality, the prospect of public knowledge seems to have assisted in the credit union's low delinquency rate of less than 1 per cent on member loans. As one respondent noted:

> Nobody wants his car repossessed and parked out by the credit union. At least if the Bank of Montreal repossessed a car, they would move it to Deer Lake. There were some early repossessions but you never see a machine parked out there now.

Because of the uniformly strong local support for the availability of a financial service, the "Straits Factor", rather than being an impediment, was an important element in establishing and maintaining the credit union's viability.[6]

As well, consumer confidence seems to have helped increase deposits at this Credit Union. While residents did not at first have complete faith in cooperative ventures and may therefore have been reluctant to lose money in another unsuccessful venture,

local merchants became major investors, along with the Shrimp Company. The merchants' example may well have infused local residents with the courage to invest in the new enterprise. As leading citizens deposited, other residents followed suit, now satisfied that they were "doing the right thing."[7]

The organization also strives for credibility, and the help it has received from the Labrador Fishermen's Union Shrimp Company, various support groups, leading business people, and its new manager has been instrumental in lending credibility to the institution. The board of directors ensured, for example, that hiring was done fairly. As one director put it, they did not want to be seen as "a bunch getting together to benefit each other." On the contrary, they were perceived by the public as community-spirited individuals who work hard for the whole area.

Most residents, when asked why the Eagle River Credit Union succeeded, responded that, above all, it was a timely response to a common, pressing need and that the services which the credit union provided were the services required by the community. Accustomed to a banking service since 1978, community residents now could not do without one, in some form. The crisis wrought by the Bank of Montreal's departure led people in the area to put aside their differences. The bonds of informal communication, kinship, and tight-knit social control, which characterize so many

rural areas, led to a rapid and generalized conclusion about what had to happen. The new Credit Union had to work! All other options had been foreclosed. Local people would have to trust themselves, and one another, to get the job done. The Credit Union was simply the only option available.

Further examination suggests that a variety of factors contributed to the venture's success. As previously noted, the Shrimp Company provided enough seed capital to ensure immediate liquidity. A bright, hard-working manager, who did an excellent job of selling services to customers, was hired. The Bank of Montreal sold the furniture at a low price and the Southern Labrador Development Association chipped in with a generous loan to pay for this equipment. The community council then donated the premises rent-free for one year. A population in dire need of banking services then deposited at a pace beyond anybody's most optimistic expectations. Finally, a hard-working board of directors made a major contribution.

One resident believed that the credit union succeeded because of "pure luck" and that these circumstances could not be repeated "for a thousand years." While it is reasonable to believe that the circumstances may not be replicated, other residents argue that the success of this credit union had very little to do with luck. A well-planned, well-executed community strategy,

formulated and led by a small group of community-minded individuals, and supported by most of the population, led to the success of the Eagle River Credit Union. The institution did not "just fall in place" but rather was carefully orchestrated by a group who set a goal and ensured its certain success.

One theory offered is that this group of enterprising people, led by local business and community and trade union entrepreneurs, were in danger of losing something to which they had grown accustomed. Applying public pressure, which had worked before in other instances, as when the region had threatened to separate from the province of Newfoundland and Labrador to join Quebec in order to get a road built, did not work in this case as the Bank of Montreal was seemingly impervious to public embarrassment.

The loss of the bank would not have led to an economic collapse but it would have been experienced and perceived as a severe social setback. Community leaders thus saw an opportunity to create a crisis which would unite the communities from L'Anse au Clair to Red Bay. A well-executed promotional campaign was spearheaded by the Regional Development Association, and all community rivalries evaporated in the face of this common cause.

Residents of the Straits area have been, historically, very individualistic in their approach to solving problems. This

individualism often expressed itself in strong political partisanship within the region, but even these political differences were forgotten to ensure the success of the cause. People who would not have dared put money in a cooperative venture now willingly placed their money with the credit union despite the perceived risk. The challenge was clear: having brought the credit union into being, the community now had to make it work.

Managing the Enterprise

The Eagle River Credit Union officially opened its doors on June 11, 1984, with a dinner at the Northern Light Inn in L'Anse Au Clair, followed by opening ceremonies at the pool hall in L'Anse au Loup. Prospective members were required to make a minimum $10 deposit which entitled them to two shares. By August of 1984, the credit union had a loan portfolio of over $400,000 and assets of over $700,000. There were 396 members and their revenue exceeded expenses by over $9,000. Chequing accounts, which were not introduced until April, 1985, had grown to over $550,000 by August of that year and all financial projections had been easily surpassed. While these successes were labelled a "fairy tale" by some local residents, original members of the credit union recount that hard work and excellent planning were major factors contributing to the early prosperity of the enterprise.

1. Management and Promotion

The hiring of a manager also marked the beginning of a new strategy for credit unions in the province. Previously, credit unions had operated through volunteers and were therefore limited by the time these volunteers had to offer. An aggressive marketing campaign mounted by Stanley Pike, Jr., the new manager, encouraged depositors by offering a higher rate of interest than competing banks. The fact that all deposits were 100 per cent guaranteed by the Newfoundland and Labrador Credit Union Stabilization Fund was strongly emphasized and as a result deposits began to accumulate quickly.

It should be noted that part of the strategy by the new board was to play down any association between the credit union and cooperatives in general, and the term cooperative was therefore seldom used. Now that the Credit Union had adequate deposits on hand, the manager turned his attention to providing loan services to area residents. Because he had previously worked at AVCO Financial Services and the Bank of Montreal, Pike had an ideal knowledge of the potential loan clientele and began a campaign to take over loans that other institutions had previously held. Consequently the loan portfolio grew almost immediately.

The new chequing service which the credit union offered also became an instant success, mainly because of Pike's strong interpersonal skills which he had acquired while working for the Bank of Montreal.[8] In addition to his promotion of this service, Pike also offered Straits residents a financial counselling service. Local people were generally savers rather than borrowers, but people who would not have considered getting a loan from a bank now felt comfortable in dealing with the credit union. Pike also, as he relates, instituted a policy of "telling people who were turned down, why they were turned down." Residents who had grown used to the air of secrecy cultivated by the Bank of Montreal found these former barriers to borrowing crumbling.

Because his customers were also neighbours and members of the Credit Union, Pike could now use his increased managerial latitude to approve loans that he formerly would have had to reject because of preordained debt-to-income ratios defined in Bank lending policy. For instance, the knowledge he had about the progress of a renovation being undertaken by a seasonally unemployed fisherman on the house he passed each day on the way to work might be an even more important piece of credit risk-management information than the established credit formulas used in most bank branches. The much-quoted axiom of "know thy customer" came to have new

meaning in the lending policies which the Credit union could now offer its customers.

2. Membership

From the first, the Eagle River Credit Union experienced unprecedented growth in membership (see Figure 4), and within two months there were 396 members. Since then, membership has been steadily increasing; with a total area population of 2340 people, the 1191 members in 1988 comprising fully 55 per cent of the region's total population. Being the sole financial institution in the area is a big factor in the high membership rate, but the esteem in which the credit union is held and the community-wide commitment to make it work must not be discounted as additional reasons for this impressive rate of membership growth. Yet, while the credit union has captured an impressive percentage of membership in the region, it should also be remembered that the potential for further growth is limited by the region's small population. Table 1.0 provides a summary of the composition of the membership by community in the region.

3. Assets

The Eagle River Credit Union's total assets have grown at a remarkable pace, reaching $1.2 million at the end of the first

year of operation and peaking at $5,572,687 just three years later (October 1987). As may be seen in Figure 5, quarterly assets peak in the summer, when fishing income is being earned, and drop in the winter when people use their savings to supplement the lower incomes they receive, largely from Unemployment Insurance.

Table 1 - Composition of Eagle River Credit Union Membership by Community, Assets and Loans Held (December 1987)

Community	(Pop.)	# of Members	Assets	Loans
Cartwright	674	76	40,644	39,683
Black Tickle	194	22	24,031	24,031
Paradise River	92	2	587	--
Total A		**100**	**65,262**	**63,714**
Mary's Harbour	463	214	329,946	223,667
William's Harbour	78	11	4,261	31,023
Charlottetown	250	40	63,822	85,666
Port Hope Simpson	604	73	114,568	98,521
Lodge Bay	124	50	80,718	16,883
St. Lewis	339	31	36,296	33,356
Total B		**419**	**628,611**	**489,116**
Straits - Total C	2,340	1,220	3,845,751	2,425,232
Total (A+B+C)		**1,739**	**4,539,624**	**2,978,062**

As this area is heavily dependent upon the fishery for income, it should follow that the price of fish, which doubled from 25 cents to 50 cents per pound between 1986 and 1987 in Southern Labrador, was a major factor in the large increase in assets in

1987. When the price of fish increases, there are more migrant fishermen; more fishermen means more depositors and thus more assets. The pattern of a steady increase in assets during the fishing season followed by a decrease for the winter is consistent for both years.

Local residents have also shown a tendency to save during the good times and to spend these savings during harder times, as Figure 5 reflects. Total assets per member were $2654 in 1987, which is lower than the provincial average of $3567 for the same year. This difference is not surprising given the widely dispersed population, the seasonal work, the lower average income of the area, and the inadequate transportation in eastern Labrador. When the Straits area alone is considered, however, this average increases to $3229, or only slightly less than the provincial average.

4. **Cash**

The Eagle River Credit Union maintains a relatively higher reserve of cash than do most credit unions or other financial institutions. The cash totals shown in Figure 6 may be deceptive, as this represents not the actual cash in the branch, but a current account figure which provides for the clearing of cheques. This figure also includes an amount of $150,000, which

the credit union is required to keep on deposit at the caisse populaire in Blanc Sablon. The region's isolation and the fact that cash must come from the somewhat distant caisse populaire are the main reasons for maintaining a relatively high cash reserve.

Figure 4. Eagle River Credit Union

Growth in Membership by Month

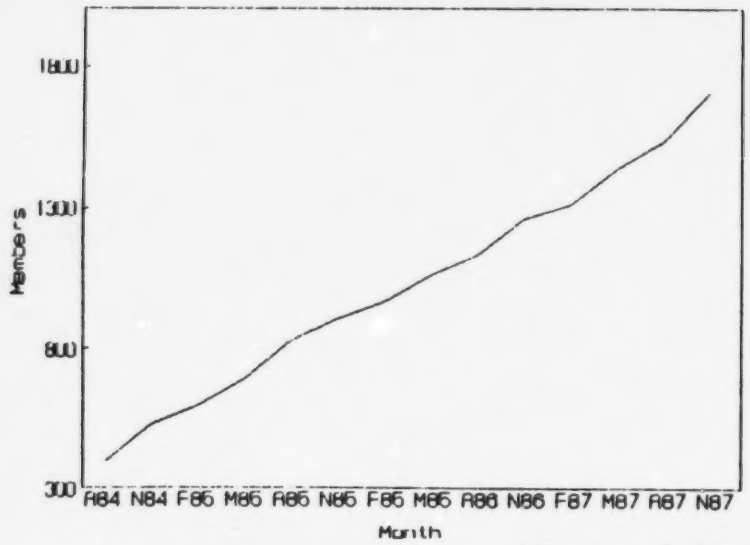


Figure 5. Eagle River Credit Union

Total Assets by Quarter

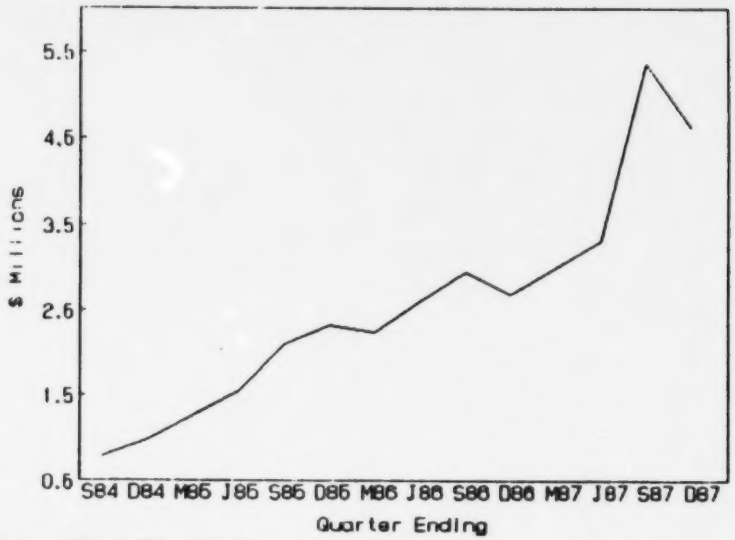
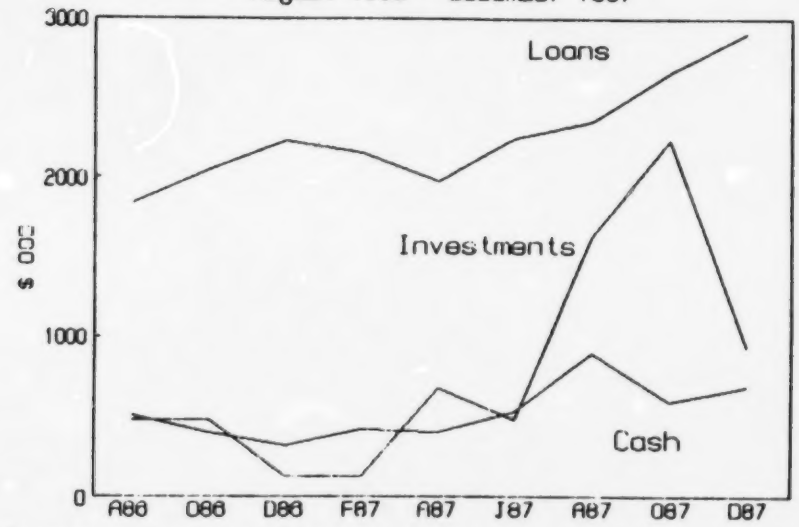


Figure 6 Eagle River Credit Union

Cash, Investments and Loans

August 1986 - December 1987



Research and Analysis Division

The large reserve of cash also helps to maintain the Eagle River Credit Union's credibility. The credit union does not wish to encounter a situation where a customer enters a branch to make a withdrawal only to discover there are no funds available. There is fear that this might lead to a panic and that members would lose confidence in the institution. And large demands on the cash reserve are common during winter months. For instance, during the month of December 1987, deposits decreased by $215,217.00. Most of this decrease was in chequing accounts ($123,000), and in saving accounts ($76,000). Undeposited funds were, in all likelihood, used for ordinary consumer needs.

Because liquidity is important for this particular credit union, the board of directors decided to forego some shareholder dividends for liquidity purposes. The Total-Earning-Asset-to-Total-Asset ratio of 83.5 per cent is an indication of this "high-cash" strategy.

5. **Investments**

Investments are the monies which the credit union deposits with other agencies, and these figures seem to be most affected by the change in total assets. They are higher than generally accepted credit union practice would dictate because the credit union's

loan portfolio has not yet matured and because of the higher-than-average liquidity requirements. The investment yield, which is a ratio of Interest-on-Investments-to-Total-Investments-and-Cash, is 4.8 per cent. This ratio is low, possibly because of the high reserves of cash. These investments also earn a lower rate of return than do loans, an issue which the credit union must resolve, although this is much more easily said than done. These deposits have been at less risk than if they were invested in loans. Because the cost of the Credit Union's assets is low, the return on investment has remained acceptable.

The Net Interest Margin -- the ratio of Net-Interest Income-to-Total-Earning-Assets -- is 7 per cent, and is evidence of an acceptable margin of surplus.

6. **Loans**

Approximately 85 per cent of total assets should, theoretically, go to loans; however, for the Eagle River Credit Union these figures are usually attained only during the winter months. In this case, an 85 per cent ratio of Loans-to-Total-Assets is hardly practical given the high cash reserve requirement. In fact, during the winter months when the credit union has reached this ratio, it has experienced liquidity problems.

Because the credit union has a need for a higher cash reserve and a different clearing system, the ratio of loans-to-assets must be lower than would be the rate for other credit unions. This is not to say, however, that the credit union cannot improve its loans portfolio. In fact, the organization has studied the feasibility of business loans and lines of credit. These new services, if implemented, could significantly improve the loans: assets ratio and expand commercial services.

Almost all loans are for such consumer items as automobiles or snowmobiles; a few are for household repairs. Generally, when incomes are high, customers pay off any outstanding loans, and therefore during summer months the percentage of loans to total assets drops as low as 45 per cent. This situation presents the Eagle River Credit Union with the problem of maximizing its surplus. For instance, if assets are not loaned to consumers at the going rate for personal loans, they have to be put into term deposits at another institution, which generally yield four to six per cent less than would the loans. When the credit union consistently must deposit over $500,000 in another institution, it is losing considerable revenue by not generating more interest from investments which return higher yields.

The credit union is now doing a market study to determine if a shift towards business loans is feasible. It sees no market for

mortgages at this time as, given the market value of homes in the area, this requirement can usually be taken care of through personal loans. Many residents build their own homes, and consumer loans are already being given for home repairs.

The trend to consumer loans has allowed the credit union to grow at an amazing rate and the low delinquency rate of less than one per cent has made these loans an almost risk-free investment. They have also stimulated consumer spending, which in turn benefits the region's retail sector. A move into the area of business loans would quite possibly provide a greater benefit to the economic development of the region, although the risks would, in all likelihood, increase. The present situation allows a consumer to obtain credit in the community from a local firm for the purchase of consumer items, such as a kitchen set. It does not, however, provide the opportunity for a local entrepreneur to access seed funding in order to open a small business to produce or sell these consumer goods. An extension of credit union services to include business loans could also solve the problem of high excess capital which is available for loans, but which is not currently being used.

The average interest for consumer loans was 13.89 per cent at the end of 1987. Signature loans are for less than $4000 and are secured by the consumer depositing 25 per cent of the loan into

the share account. Delinquent loans account for less than one per cent of total loans, an indication of the care with which loans are made. The loan yield of 11.3 per cent (at the end of 1987) is also quite acceptable.

Table 2 - Distribution of Eagle River Credit Union Loans by Type (As of December 31, 1987)

Automobiles	1,834,008	(61.0%)
Household	12,365	(0.4%)
Equity (Chattel)	864,848	(29.0%)
Signature Loans	288,206	(9.6%)
	$2,999,427	(100.0%)

7. **Deposits**

A large proportion of members' deposits are placed into regular daily accounts which pay interest on the customers' lowest monthly balance. These accounts do not provide the higher interest rates that a term deposit would pay, nor do they offer the convenience that a chequing account would allow. The fact that these accounts pay interest only on the lowest monthly balance also means they are not useful for weekly or daily activity. Why, then, would there be more money in savings accounts than in chequing or in term deposits? Possibly, customers tend not to want to tie up a large sum of money for any length of time, even in a 30-day term deposit which offers a lower rate than do share dividends. Alternatively, they may not fully understand how a term deposit could be of benefit to them. They

may also be distrustful of chequing accounts, and indeed there may well be problems stemming from the old pre-banking attitudes about cashing cheques.

These savings accounts are, however, fairly convenient and most customers don't mind going to the credit union three times a week. A visit to the credit union it is seen as a social occasion - a time to see people and catch up on local news. It is quite conceivable that a Daily Interest Savings Account could help customers by making their savings more accessible, and the credit union is now introducing this type of account. Chequing accounts are also increasing in popularity, seemingly at the expense of term deposits, which have dropped by 25.7 per cent, the only type of account showing a decrease. Although this trend leads to a low cost for capital, there is also a danger that there may be insufficient long-term investments to match long-term loans, so the credit union must always be conscious of the need to maintain an adequate balance.

8. **Member Equity**

The share account, requiring a minimum share of $10, is the major form of member equity with the credit union. It offers no interest but will pay dividends on any surplus at the end of the year. It also enables the customer to only one vote, no matter

how much capital that customers may have invested. These shares have generated a high amount of capital investment - about $400 per shareholder - and 17 per cent of all deposits are share accounts. The tremendous growth in member equity - 144.5 per cent from 1986 to 1987 - indicates that members see the value of the share account, which has provided a ten per cent dividend for four consecutive years. The willingness to invest in share capital is, as well, an unmistakable vote of confidence by the members in their financial institution.

Expansion and Growth

The communities in eastern Labrador, the region adjacent to that of the Straits, are not as well-represented as the latter on the credit union's membership rolls because eastern Labrador's population is more widely dispersed and there is inadequate transportation. While the people in the region have invested in the Eagle River Credit Union, the lack of adequate transportation makes it difficult for the L'Anse au Loup facility to serve all its customers. Consequently, more branches of the Eagle River Credit Union would be needed to serve the small, remote market of eastern Labrador. In L'Anse au Loup, the present Overhead-to-Earning Assets ratio is 5.8 per cent, which is perfectly acceptable for this enterprise. Overhead costs would obviously

increase if new branches opened, and it would be necessary to monitor these costs.

The credit union was, nevertheless, pleased with its success in southern Labrador and thus turned its attention to extending its services in eastern Labrador. Cartwright and Mary's Harbour were prime targets, as both areas have fish plants operated by the Labrador Fishermen's Union Shrimp Company. The strategy of the credit union was to visit these communities and inform residents of the nature and benefits of a credit union.

In Mary's Harbour, there was little positive response at first to the idea of opening a branch of the Eagle River Credit Union. One credit union director who met with local people felt that they were highly suspicious of the "crowd from the Straits" and wondered, "what the people of the Straits were going to get out of it." The credit union did receive some help in Mary's Harbour from a worker of Memorial University of Newfoundland's Division of Extension Service who assisted in the distribution of questionnaires and in providing information to the residents of the community.

The credit union had made a commitment, however, to provide financial services to eastern Labrador and so decided to move into Mary's Harbour part-time in March, 1986. Mary's Harbour residents

were more receptive to the idea of a credit union as the community was closer to L'Anse au Loup than was Cartwright; this was also an important cost consideration for the credit union. Since a number of accounts had been opened by Mary's Harbour residents, the Eagle River group felt that there was enough interest to warrant the opening of a branch in that community.

As a review of the Eagle River Credit Union shows, the commitment to the credit union by Mary's Harbour residents is now quite strong: of the 463 people in Mary's Harbour, 214 are members of the credit union - a participation rate of 46 per cent. Assets in this community reached a total of $329,946 by December 1987, a total assets per person rate of $713 which is much higher than the provincial rate (See Table 1, p. 44). By March, 1987, business in Mary's Harbour had grown so much that the Eagle River Credit Union opened full-time with two staff members employed. Assets reach approximately $1 million during the peak fishing season but drop to approximately $600,000 during the off-season. This trend follows that of the main branch in L'Anse au Loup, which as noted is also heavily influenced by the fishery.

The Mary's Harbour branch was not the immediate success that the L'Anse au Loup branch had been, but this result had been expected. The experience, however, did give the credit union a reasonable model for future expansion. For instance, the strong groundswell

of community support that was the major catalyst in the Straits region did not occur in Mary's Harbour; Mary's Harbour had no previous local banking services and so the community impetus was not as strong there as in the Straits. There were also new problems of staffing and accommodations which had not occurred in the Straits because of its resident expertise and the fact that its premises had been donated rent-free for one year by the L'Anse au Loup Community Council. Again these were problems that could be anticipated when opening any business in such smaller areas as Mary's Harbour, Cartwright, or Port Hope Simpson.

Despite its larger population (674), the community of Cartwright does not have a financial institution. There are 76 Cartwright residents who are members (by mail) in the Eagle River Credit Union for a participation rate of 11 per cent, consequently there is much potential for growth. Assets per member are $535, again much higher than the provincial norm and, with its 100 accounts ($53,000 in deposits and $64,000 in loans) at the L'Anse au Loup branch, it is the most obvious next place for any planned expansion. A branch in Cartwright could, theoretically, also serve the communities of Black Tickle and Paradise River. This branch, if opened, would be subject to great fluctuations in activity because of the area's extensive migrant fishery. But while the area population is only 1,000, the fishery around Black

Tickle is probably the best in Labrador and it draws many migrant fishermen from insular Newfoundland and southern Labrador.

Members of the credit union's board of directors also planned to visit Cartwright, but the scheduled meetings between members and local residents were subsequently cancelled, for various reasons, at the last minute. The cancellations may have been the result of poor communications between residents of Cartwright and representatives of the credit union. Meanwhile, the Eagle River Development Association, which represents Cartwright, continues to actively lobby for credit union services for Cartwright and the credit union intends to pursue its plans. In June 1988, Canada-Newfoundland Rural Development Subsidiary Agreement (ACOA/RAND) approved $9,000 in funding, and contributed $4,000 of its own money, for a feasibility study to expand services to Cartwright, the only financial assistance which the Eagle River Credit Union has sought and received from either order of government.

After four successful years, the Eagle River Credit Union is constantly looking for ways to increase services to its customers as evidenced by its consideration of entering into commercial lending. It is also considering offering lines of credit to its customers as well as direct transfers of funds.

Summary

In addition to retaining improved financial services for the Straits region, the Eagle River Credit Union has also created seven full-time, permanent jobs in its L'Anse au Loup and Mary's Harbour branches. In an area where employment opportunities are limited, these positions are important economically and socially. Money has remained in the region, disposable income has increased, and businesses have reported that sales increased after the opening of the credit union even though the economy suffered a downward turn. A full financial service, complete with cheque cashing and clearing, deposits, and loans, has been maintained by the community. By its location and cooperative structure the credit union has put control of services into the hands of local residents.

The credit union also helped the development of leadership in the community and continues to provide a means of education for local residents in the running of their own affairs, particularly community organizations. For instance, the credit union's board of directors now can make administrative and financial decisions that would not otherwise be open to them. The founding of the Eagle River Credit Union in L'Anse au Loup and its expansion to Mary's Harbour have also provided its board of directors with the

means and broad experience to extend its services to other northern communities.

The social repercussions, however, have been probably most important to the region. The struggle to open this credit union brought the community together, and residents still refer to it as, "the best thing that ever happened to the area." The continuing success of the endeavour has helped to reinforce, in local residents, a sustaining belief in themselves and their abilities. This experience of success will be important as the credit union deals with its future growth in markets and services.

Lessons for Public Policy

The history of the Eagle River Credit Union provides several important lessons for the development of regional economic policy in Canada. First and foremost among these is the fact that Canada's rural areas continue to have the capacity for economic vitality and innovation. Even in areas like Southern Labrador, where standard social and economic indicators might suggest a different conclusion, local enterprise and entrepreneurship have created new economic activity, new employment, and the foundation for new development opportunities.

The story of the Eagle River Credit Union is one of cooperation between labour, business, and voluntary organizations which crosses both linguistic and provincial boundaries. The common identification with a region and the experiences of a rural way of life transcended the types of social divisions that have so often served to retard rural economic innovation and development in small communities.

This example of successful community economic development has a history which goes back much further than the Bank of Montreal's departure in 1984 and the sense of urgency it created. Over a period of years, the people who helped start the credit union had almost all been involved in a series of local and government initiatives to promote regional development. From the founding of the first Regional Development Association in 1967, to the Company of Young Canadians which operated there in the early 1970s, to the Community Employment Strategies Association that was established from 1974-1978, there had been numerous opportunities to learn and sharpen both organizational and leadership skills. The Extension Service of Memorial University had been active in the area as well, and fishermen gained important experience by participating in their own Fishermen's Union.

All of these organizations provided local people with the opportunity to work together in common economic partnership and to

understand that the whole was, indeed, greater than the sum of its parts. Working together created new energy, new opportunities, and new skills. A pool of talented, enterprising and capable community, business and labour leaders developed through this process. One decade later these people had enough skill, collaborative experience, and common trust to work together under considerable pressure to form committees, lobby government, run meetings, manage the media, negotiate with the chartered banks, and eventually run their own financial institution.

Though the people of Southern Labrador neither asked for nor received any direct financial assistance from governments to create their own credit union, the previous public investments in regional organizational capacity did produce observable results. Seven new full-time jobs in the service sector now exist. Tourists coming to visit the historic Basque whaling station in Red Bay can cash cheques and thus spend more money on local crafts, restaurant meals, and rooms at the local motel. An additional $216,679 of disposable income was generated in the area in 1987 on interest earned from deposits and member returns on equity. Almost $3,000,000 was borrowed from the credit union last year for the purchase of goods and services in the local economy.

The "soft" organizational side of regional policy for rural areas is often neglected or ignored in strategies to foster

regional development. Although the meeting room for the local rural development association is not called a university, people there are learning important business management and economic development skills that the graduate in business administration would be well advised to learn. Organizing, establishing, and managing a small business; developing an intuitive sense of what the local market will support; and effectively communicating economic ideas are all the product of years of informal learning through participation in a broad spectrum of regional development organizations.

Additionally, the use of field staff, working for both the credit union movement and government to extend technical assistance and advice, is a classic rural development technique that apparently needs to be relearned in an era preoccupied with the transfer of information by fibre-optic cable and satellite. Whether they are called animators, extension workers, or community development specialists, field workers are often the most accessible source of information, advice, and the tools necessary to provide rural economic change and development.

Perhaps the most obvious lesson from the Eagle River Credit Union example is that the availability of sound management helps to ensure commercial success, whether the firm is located in Toronto or L'Anse au Loup, Labrador. The presence of a trusted,

well-trained, and experienced former bank manger surely enhanced the new credit union's chances of success.

How will the Eagle River Credit Union manage its success? Being located in a relatively remote corner of Labrador, how will it manage its intended growth into even more isolated communities along the Labrador Coast? Should the credit union establish more branches or should it telescope 30 years of financial service development and proceed directly to using automatic teller machines? How should it address the issue of commercial lending in an area characterized by chronic regional underdevelopment?

While the dedication and seasoned intuition of its directors and staff represent the credit union's most important resource, these and other questions of commercial management also need to be addressed with the tools of marketing, feasibility and financial analysis that are readily available in urban areas but inaccessible and costly in Southern Labrador. Providing rural community economic and business development organizations with access to this type of "nurture capital" is but another challenge confronting regional economic development policy.

In general, however, the lesson which the Eagle River Credit Union provides is that rural economic development requires different strategies and techniques to foster economic innovation,

diversification, and growth. Rural areas have special problems of communication, lack of human resource skills, and access to economic development and business services. Regional economic policy must address these issues if the human and economic capacity of rural communities is to be fostered and developed.

Appendix 1 - Case Study Method

The case study method employed in this research project includes:

1. direct personal interviews with individuals involved in the events leading to the formation and operation of the credit union, including representatives of community organizations, labour unions, public officials and business persons (N=*) (See Appendix 2 for List of Respondents);

2. a review of literature pertaining to the Southern Labrador region;

3. secondary source research and derivation of existing statistical data (for example, the Census of Canada, the Revenue Canada T1 files, the Labour Force Survey) for the Southern Labrador region;

4. a review of relevant government administrative files (for example, the Registry of Cooperatives) and;

5. a review of newspaper articles pertaining to the founding of the Eagle River Credit Union.

This research was jointly managed from January to March 1988 by the Research and Analysis Division, Department of Rural, Agricultural and Northern Development, Government of Newfoundland and Labrador and the Economic Council of Canada.

Appendix 2 - The Organization of the Eagle River Credit Union

Credit unions are distinctive financial institutions and, as they are incorporated under provincial legislation in Canada, their structure and organization can vary from province to province. While they all possess a common one-member-one-vote constituent base, it is worthwhile providing a short description of the organizational structure of the Eagle River Credit Union.

1 Members

Membership in the credit union is limited to persons approved by the board of directors from among the applicants who are included in the field of membership defined in the credit union's charter. Each member present at annual or special meetings has one vote. Only members may borrow from the credit union just as only members may deposit savings or purchase of shares.

2 Board of Directors

The board of directors guides the activities of the credit union, elects its own administrative officers and hires the manager.

3 Credit Committee

The credit committee generally supervises all loans to members, inquires into the financial position and personal habits of every applicant for a loan and the security offered by such applicant; and ascertains the ability of such applicant to repay the loan in accordance with the terms of loan repayment; and decides whether the loan promises to be a benefit to the applicant. The minimum number of committee members is three.

4 Supervisory

The supervisory committee, consisting of at least three elected members, examines the affairs of the credit union and audits its books.

5 Executive Committee

The executive committee is accountable for planning and policy decisions. It is also permitted to make decisions between meetings. Three volunteers and the manager form this committee.

Appendix 3 - Eagle River Credit Union Financial Statement

Balance Sheet

Assets

	Dec. 85	Dec. 86	Dec. 87	% Inc.
Total Investments	118,912	129,527	940,033	625.0%
Personal Loans	1,800,184	2,235,462	2,925,842	
Loans Loss Allowance		10,500	10,500	
Loans To Members	1,800,184	2,224,962	2,915,342	31.0%
Total Earning Assets	1,919,096	2,354,489	3,855,375	63.7%
Cash on hand	375,683	319,099	693,775	
Accrued Interest	14,668	20,145	30,006	48.9%
Net Fixed Assets	8,434	7,935	36,734	
	398,785	347,179	760,515	
Total Assets	2,317,881	2,701,668	4,615,890	70.8%

Liabilities

	Dec 85	Dec 86	Dec 87	% Increase 86-87
Chequing	567,766	648,482	1,471,499	126.9%
Savings	828,824	888,721	1,580,168	77.8%
Term Deposits	217,271	687,693	511,004	-25.0%
Members Shares	308,800	315,373	771,080	144.5%
RSP	21,651	58,831	124,560	
Other				
Total Funding	1,944,312	2,599,100	4,458,311	71.5%
Borrowing	302,500			
Accrued Interest	6,038	34,812	28,854	
Other Accounts Payable	12,143	15,959	28,386	
Total Accounts Payable	18,181	50,777	58,240	
Total Liabilities	2,264,993	2,649,871	4,516,551	
General Reserves	10,578	12,993	8,044	
Undivided Earnings	42,309	38,804	91,294	
	52,887	51,797	99,338	
Liabilities and Equity	2,317,880	2,701,668	4,615,889	

Income Statement

	Dec 85	Dec 86	Dec 87	Incr. 86-87
Interest on Personal Loans	182,807	264,950	329,908	24.5%
Interest on Investments	19,859	29,590	79,738	169.5%
Interest on Income	202,666	294,540	409,646	39.0%
Interest on Deposits	74,650	16,452	139,499	19.8%
Net Interest on Income	128,016	178,088	270,147	51.7%
Other Income	18,134	31,299	44,957	
Adjusted Operating Income	146,150	209,387	315,104	50.5%
Administrative Expenses	23,500	30,417	50,545	66.2%
Salaries & Benifits	63,618	103,162	137,267	33.0%
Occupancy Costs	5,077	10,932	10,780	
Provisions for Loan Loses	10,054	22,820	21,377	
Other Expenses	1,592	3,250	3,940	
Total Expenses	103,841	170,581	223,809	31.2%
Gross Operating Income	42,309	38,806	91,295	
Net Income	42,309	38,806	91,295	135.3%

NOTES

1. A small rural fishing community in Newfoundland.

2. The Newfoundland household resettlement program(s) were intiated by the Province in 1954 with the Federal government contributing financial assistance from 1965 to 1975. Between 1954 and 1978, 225 communities were completely evacuated and a further 312 communities partially resettled.

3. The Statistics Canada Unemployment Rate is based on those who report having undertaken an active job search in the four weeks previous to the Labour Force Survey and are without a job. This has been documented (Community Resource Services, 1978; Economic Council of Canada, 1980; Hill, 1981; House, 1986) to underestimate the "real" unemployment rate due to "discouraged" workers who are excluded from the Labour Force definition of being unemployed.

4. George Forget (interview, February 9, 1988).

5. Regional Development Associations have existed in the Province since 1967 and have received assistance from a host of Federal/Provincial Rural Development Agreements. There are now 55 Regional Development Associations in the Province.

6. Local residents, however, deny the notion that there is anything special about the role of the "Straits Factor" in the emergence of the credit union. They point out that both the Bank of Montreal and, for a short time, Avco Financial Services, had operated in the region with no reported delinquency rate problems. As another resident asked, "Why [then] should there be any problems for the credit union?"

   It should also be remembered that in the past, Strait residents had found that credit offered by merchants led to a form of servitude, and therefore they have come to believe that it is undesirable to owe money to anybody. Residents usually think very hard before obtaining credit and when they do they generally repay the debt as quickly as possible. A prominent business person in the area related how he and his spouse had obtained a loan to start their business. After receiving the loan, the wife worried that her parents would ask where the money had come from. "It was as if I had done something wrong," she recalled. The amount of the loan was $35,000.

   Gilbert Linstead, the manager of the Labrador Fishermen's

Union Shrimp Company, stated that "the residents [of the Labrador Straits] are good honest people" and that they take pride in their financial matters. He also said that people tend not to borrow unless they have to and then pay off their loans as quickly as possible because of the unpredictable nature of the fishery. For instance, if a fisherman has a loan and experiences a good fishing season, he will probably pay off the loan because he doesn't know what the next year will bring.

7. An important contingency relating to the Straits Factor is the requirement for, and the difficulty in protecting, confidentiality in a small rural region. Because the credit union is a democratic organization (see Appendix 3) which elects volunteers to a board of directors and other committees, there is a fear of information leaks. While the volunteers' access to personal files is very limited, and ideally the committees may see files only by number and not by name, there is concern that a disgruntled volunteer might spread information to the general public.

   The Eagle River Credit Union has thus far been diligent in its election of conscientious individuals who respect the importance of confidentiality, although there have been suspicions that some may be talking about clients' private financial circumstances. Because confidentiality may be unrealistic in a small and tight-knit community, there have been discussions regarding the use of external auditors instead of volunteer committees.

8. When the Bank of Montreal first introduced its chequing service to its customers, for example, Pike hand-delivered the first order of cheques to all his customers from L'Anse au Loup to Red Bay in order, as he said, "to get feedback from the new customers."

LOCAL DEVELOPMENT PAPERS

Fall 1989 Releases

A Case Study of the Kitsaki Development Corporation, by Michael Decter and Jeffrey Kowall.

Equity Capital and Economic Development in Newfoundland and Labrador, by the Economic Council of Newfoundland and Labrador.

Loan Funds for Small Business: Lessons for Canadian Policy Makers: A Case Study of Colville Investment Corporation, Nanaimo, B.C., by Lloyd Baron and Noel Watson.

The Great Northern Peninsula Development Corporation: An Organizational Framework for Revitalization? by Peter Sinclair.

The West Prince Industrial Commission: A Case Study by Wayne MacKinnon with the assistance of Jon Peirce.

Two Perspectives on Regional Development in Atlantic Canada: An Overview and a Case Study of the Human Resources Development Association, by Elizabeth Beale.

Where Credit is Due: A Case Study of the Eagle River Credit Union, by John Wickham, Richard Fuchs, and Janet Miller-Pitt.

Subsequent releases will include papers on the problems of single-industry towns, urban cores, development indicators and other cases and aspects of local development. An overview paper entitled Developing Communities: The Local Development Experience in Canada will present the findings from this phase of the project.